

Submitted to: Verra

Project under public consultation: ARR CERRADO CARBON PROJECT (ID 2790)

## Public consultation response

### ARR CERRADO CARBON Project

[The Nature-based Solutions Brazil Alliance](#) aims to promote and stimulate an agenda to discourage deforestation and forest degradation through the creation of guidelines and good practices, generating a safe and reliable business environment. The NBS Brazil Alliance appreciates this opportunity to share input on the ARR Cerrado Carbon Project. The open consultation process and the possibility to participate actively is an opportunity to improve the integrity of the carbon credits.

As a non-profit association of project developers whose members are: Agrocortex, Bioassets, Biofilica, BR Carbon, BVRio, Carbonext, Ecosecurities, ERA Brazil, FAS, IDESAM, Instituto Ekos Brasil, Mirova Natural Capital – Althelia Funds, Permian, Sustainable Carbon, and South Pole, it is great to see new carbon projects being developed.

The following aspects contained within the Project Description were seen as concerns:

#### Baseline assumptions

The document does it bring forward enough information to understand how the baseline (ex-ante) and the ex-post estimations were calculated. While it was mentioned that the baselines were created based on pastures and sparse trees, there is no mention of whether there was stratification, what equations/models were used to estimate ex-ante carbon stocks, possible harvest cycles, area size separated by species, etc. This would be useful in explaining also how/why the ex-ante calculation on page 18 reproduces the same numbers every 7 years for the duration of 100 years.

The Alliance also questions if productivity decreases over time, and therefore emissions from fertilization or lack of sequestration due to fallow, are not reflected, and argues that it would bring to a more conservative approach to the project.

It is important to note that the project baseline calculations, as well as project reductions and removals, are not available, only the final result of the calculations, which we found alarming. The baseline emission quantification reports: "This section will be completed for the VVB assessment and project registration". We understand that this information is not required to be made available at this point by Verra. However, as an overall recommendation, we believe it would be productive for the

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proponents and for others evaluating the project to have this information made available earlier on in the process to properly address it in the public consultation stage.

In addition, page 5 of the document raises questions as to why carbon finance is needed over 100 years to support an economic activity that has historically been profitable by claiming that the project start date was in 2019: “[19-07-2019 is the] start date of the project, which will have a renewable crediting period of 100years, from 19-07-2019 to 18-07-2119, with an average annual GHG emission of 75,984tCO<sub>2</sub>e”.

### **Leakage**

Page 63 calls for attention where it claims *“As previously outlined, the area is characterized as degraded pasture, hence, no crop cultivation activities would be displaced by the first group of instances. Grazing activities are also unlikely to be displaced by the project. The Phyto physiognomy of the area indicates that these areas had not been managed for a few years, given the state of the grassland seen at the areas”*. This claim is contradicting the additionality argumentation on the basis that if the areas are abandoned and, hence, there is no leakage, then cattle ranching is not the most attractive land use to be undertaken in these areas.

### **Ownership of the land**

The project is being developed solely in private lands, owned by Suzano S.A. The Project Proponents do not present adequate references to ownership documents, as per the table of item 1.7. Land acquisition in Brazil is usually preceded by a two-pronged process. Firstly, the parties need to sign a Public Writing of Purchase and Sale before a specific public notary (usually called the Registration Service of Titles and Documents, as referenced in the PDD). As a second step, the parties need to register this "Public Writing" before the Real Estate Registry (connected to a Land Registry ID, in Portuguese, also known as a "matrícula").

Considering this, we observe that some properties are only mentioned with respect to the Public Writing of Purchase and Sale (Boi Preto, Guarani, Granol Modelo I, Retiro Belo Horizonte, Aurora, Lagoa Comprido, Campo Limpo, Lalulvi, INEC, Andramil, Santa Luzia, Ponte Alta). Properties should present the Real Estate Registry documents, including the ID number of the property before the aforementioned registry.

### **Safeguards**

There are many missing elements within the safeguards section. No information on the safeguards section is provided, which is not aligned with best practices. Project

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Proponents inform that the section will be completed for the VVB assessment and project registration.

Just as mentioned in the Baseline Assumptions section, we understand that this information is not required at this point, however we urge Verra to reconsider this process in order to make public consultations more transparent and efficient for all entities involved.

### **Additionality**

The most problematic part of the document is the transparency regarding the beneficiary(ies) and clear parameters for monitoring the socio-environmental benefits expected with the implementation of the project. Since it is a commercial plantation (with parts of the land already bought by Suzano) and the fact that the commercial planting of eucalyptus is the core-business of the project proponent, **it is questionable whether the project within these parameters would not already occur naturally in a baseline scenario, even with a well-defined positive socio-environmental impact matrix.**

Moreover, as it is an activity with high profitability and high IRR, it is not acceptable for the project proponent to avoid conducting the additionality analysis by step 2 (Investment analysis), with a simplistic argument that "*Given the barrier analysis identifies only one alternative land use scenario, it would not be necessary to proceed with step 3 (sic)*". It's worth noting that the correct sentence is supposed to be "it would not be necessary to proceed with **step 2**", once step 3 is the barrier analysis (presented in the PD) and step 2 is the investment analysis (avoided to be presented).

Attending the previous argument of leakage, no extensive cattle ranching activity is expected to leak because the low fertility of grasslands is preventing the cattle from thriving. It is questioned how this can be deemed a plausible land use scenario as seen in document page 77.

The observed land use change involved in Eucalyptus in Brazil follows the same patterns as many crops, including predatory expansion and the low feasibility of being produced without the support of fertilizers and pesticides. This makes the statement found in document page 79 contradictory and flawed: "*In the period between January and November 2020, soybean exports in the state of Mato Grosso do Sul reached an export value of (US\$ FOB) 1.62 billion, an increase of 42.4% compared to 2019. To demonstrate the evolution of soybean crop expansion in the state, Figure 32 Mato Grosso do Sul. Evolution of soybean planted area: 1990, 1995, 2000, 2005, 2010 and 2015. represents the spatialization of data that conclusively attest to the expansion of the planted area in*

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*the last decades in the state. This predatory form of expansion is consistent with the dynamics of modern production; there is still the advance of crops over portions of native vegetation, as well as a more technological management of crops, increasing their average yield per hectare through the massive use of fertilizers and pesticides”*

The aforementioned argument in the previous paragraph is also valid Document page 80, where we see the same trend, but in smaller values, indicating that the growth in the last years has been remarkable: *Figure 32 Ribas do Rio Pardo is the municipality where the Cerrado ARR project is located. Relevant similar data for Eucalyptus can be found in the following Governmental links (Brazilian Institute for Geography and Statistics, IBGE): <https://biblioteca.ibge.gov.br/index.php/biblioteca-catalogo?view=detalhes&id=774>. The IBGE 2020 report says: "Ribas do Rio Pardo (Mato Grosso do Sul) was the third municipality with the highest value of forestry production, generating R\$ 322.2 million and constituting a national highlight in the production of wood in a tora for pulp and paper, with an increase of 86.0% in terms of volume, compared to the previous year. Another Municipality of Mato Grosso, which stood out in the forestry sector, was Três Lagoas, which obtained the sixth highest production value, with R\$ 290.6 million."*

The argument found in document pages 80-81 which state that *“It is a fact that the expansion of commodity cultivation encounters few obstacles in frontier agricultural areas, suggesting that the growing volume of soybean production in the state rather occurs because of horizontal expansion (occupation of new areas) than vertical expansion (increase in yield)”* is also applicable to Eucalyptus. MAI in this region is about 35 m<sup>3</sup>/ha/year, homogeneous throughout the plantation areas. In this sense, the growth in production is also based on horizontal expansion.

In our opinion, it has not been demonstrated that the most likely scenario for a new venture involving land use in Mato Grosso do Sul is cattle farming, as seen on the article on page 83 under the title *“BARRIERS RELATED TO LOCAL TRADITION OF LAND USE”*, which follows an argument on barrier based on absolute values of land occupied by the different land use activities, rather than on observed trends. This article, dated in 2011, describes how the Eucalyptus culture expansion has already taken momentum. It does not, however, reflect how the silviculture with Eucalyptus had already experienced a significant growth in 2011, regardless of data accuracy. As of today, and according to IBGE’s data for 2020, the 4 municipalities with highest growth in planted Eucalyptus area are located in Mato Grosso do Sul, accounting for 650k Ha, the state in which the Project is located. Milk production in Mato Grosso do Sul shows a declining trend since 2005. The State’s cattle herd has been decreasing in Mato Grosso do Sul since 2003. In our view, the silviculture of exotic species in the monoculture regime is today also essential to the state’s economy. According to IBGE, soy, corn and sugarcane show an increasing trend in production in Mato Grosso do Sul since 2007 since today, which is

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contradictory to the statement on page 86 that claims: *“Even with institutional incentives, it is important to highlight that technological setbacks are still present in soy farming to be able to treat and prevent such diseases. The joint analysis of the limiting aspects for the implementation of soy farming corroborates the preference of rural producers in Mato Grosso do Sul to remain with the cattle ranching activities that are already consolidated in the region”*

Finally, page 88 of the document states that *“Under such conditions, farmers are unlikely to take the risks and challenges of long-term investment, rather than continuing with a well-known land use activity, with higher financial returns that also occurs on a short-term horizon, which constitutes an investment barrier for forest plantations. These are unfavorable aspects to reforestation in the region where the present project will be implemented, the low price of wood added to the high costs of logistic operations and the direction of State incentive s to competing activities, makes the activity far less attractive and, thus, in line with the generation of carbon credits”*. Given that the Project start date is 19/07/2019, the financial barrier was already surpassed by the project proponent and the situation now seems to be governed by low prices of the Eucalyptus wood market. While carbon credits could help alleviate the return on investment since the market is not rewarding Eucalyptus products enough, this may change in the future. Therefore, it is believed that this is not a strong enough argument to justify the additionality of this project. Moreover, this is a grouped project and the physical potential, i.e., the availability of land in Mato Grosso do Sul suggests this project could expand to more than 300k hectares.

### **Biodiversity**

Document page 10: *“It is important to stress that the project proponents only allow the plantation of Eucalyptus, and there is a list of permitted species under this gender that can be used in order to assure the intensity of wood production and carbon capture.”*

It is unclear what are the implications for biodiversity of such a practice

The NBS Brazil Alliance appreciates this important opportunity to record our comments. We welcome the project proponents to reach-out directly with any questions or follow-up requests related to the comments shared above by contacting **NBS Brazil Alliance Coordinator, Victor Ferraz**, at [nbs@nbsbrazilalliance.com](mailto:nbs@nbsbrazilalliance.com).

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